

# CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

The Bank of Kentucky Financial Corporation

Point of Contact:	Martin Gerrety	RSSD: (For Bank Holding Companies)	2291624
UST Sequence Number:	362	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	34,000,000	FDIC Certificate Number: (For Depository Institutions)	33022
CPP/CDCI Funds Repaid to Date:	17,000,000	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	February 13, 2009	City:	Crestview Hills
Date Repaid <sup>1</sup> :	12/22/2010	State:	Kentucky

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Although loans decreased approximately 4% in 2010 as a result of diminish loan demand, the CPP has strengthened the Company's balance sheet and capital position and allowed the Company to remain committed to making credit available to fulfill the needs of its customers.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☒ **Increase securities purchased (ABS, MBS, etc.).**

The Company increased its investment in U.S. Government mortgage-backed securities by \$16 million dollars, or 19%. With these investments, the Company provided incremental liquidity to the residential mortgage markets and at the same time obtained products that generate cash flow.

☐ **Make other investments.**

☐ **Increase reserves for non-performing assets.**

☐ **Reduce borrowings.**

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☒ **Increase charge-offs.**

The Company's net charge-offs increased \$5.7 million, or 75%, in 2010. The

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☒ **Held as non-leveraged increase to total capital.**

By holding the CPP investment in 2010 the Company's total risk weighted assets increased 15% from 12.02% at the end of 2009 to 13.77% at the end of 2010. A stronger capital base allows the Company to remain focused on meeting the credit needs of the markets it serves.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

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### What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

During 2010, The Company completed a secondary public offering of 1,765,588 shares of Common Stock at \$17.00 per share, for net proceeds of approximately \$28.2 million. This offering was followed by the Company's repurchase, on December 22, 2010, of \$17 million of the outstanding \$34 million in Series A Preferred Stock issued in conjunction with the CPP. The Common Stock offering and the subsequent repurchase of one-half of the Treasury Department's CPP investment was an important step towards the Company's complete exit out of the CPP. Management originally decided to participate in the CPP in 2009 to reinforce its strong capital position, advance the Treasury Department's efforts to facilitate additional lending in the markets in which the Bank operates, maintain its competitive advantage over its less well-capitalized competitors, ensure sufficient capital to support future acquisitions and support its general operations. Management believes that the Company has achieved these goals that were established when the CPP investment was made.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.